



No June Business in Nebraska

The budget squeeze at the University of Nebraska—Lincoln, the College of Business Administration, and the Bureau of Business Research will force us to omit the June 1987 issue of Business in Nebraska. Continued publication of Business in Nebraska is under review.

Several alternatives are under consideration, including less frequent publication, a different format, and modified printing and distribution methods. Reader ideas are important, and your suggestions and comments are invited.

For the time being, the Bureau of Business Research will maintain monthly retail sales data. This information will be available to interested persons on request. Stringent budgets are forcing the Bureau of Business Research to evaluate all of its activities, including publication of Business in Nebraska.

NEBRASKA FARM REAL ESTATE MARKET TRENDS

*Bruce Johnson**

The value of Nebraska farmland continued to fall in 1986, but generally at a more moderate rate than that in previous years. Preliminary estimates from the UNL Department of Agricultural Economics annual survey show an average decline for the state of nearly 10 percent from February 1, 1986 to February 1, 1987 (see Table 1). Combined with earlier downturns, that places today's average value of Nebraska farmland at just 41 percent of its peak value in 1980-81. Few other states have encountered this magnitude of decline, although many have experienced a larger annual decrease over the past year.

Wide variations in value changes occurred during 1986. In the eastern third of the state, the all-land average decline ranged from 4 to 7 percent, while all-land averages fell 13 to 15 percent elsewhere (see Figure 1).

Clearly, dryland cropland values have exhibited the most stable performance during the past year, with a number of outstate reporters indicating areas of little or no decline and even some instances of modest increases since February 1986. For example, the northeast region exhibited the greatest stability, with reported average values for dryland cropland (no irrigation potential) and for center pivot irrigated cropland even slightly higher than those of a year ago.

For grazing land in the central and western areas of the state, the percentage declines for the 12 month period were sizable. Moreover, the value de-

clines from peak-year levels for grazing land have been larger than those of any other type of land. Here too, however, reporters indicated some renewed activity in the past few months and possibly some degree of price stabilization since late 1986.

With 1986 being the sixth consecutive year of land value declines in the state, the overall adjustment has been substantial and not without economic pain. Today's values are roughly comparable to levels of thirteen years ago when the farm sector was just beginning to embark on a robust economic period (see Figure 2). In short, the devaluation of the 1980s virtually has wiped out the appreciation of the bullish 1970s. For the sector as a whole, Nebraska's farm real estate now is valued at about \$14 billion, representing a value loss of more than \$20 billion from its peak in 1981. This represents a considerable loss of wealth to rural Nebraska, impacting retirees and other rural residents as well as operating farmers. Both the private and the public sectors of rural communities will continue to bear the consequences of this loss for years to come.

In real terms (adjusted for inflation) farmland values in Nebraska are lower now than at any time since the mid-1940s. Even real values of the mid-1930s were higher than present levels. In other words, for the owner who has held a parcel of farm property for the past 40 years, there has been no change in the real wealth associated with that asset.

For the individual owner who bought farmland six to ten years ago, the loss of equity has been

*Bruce Johnson is affiliated with the UNL Department of Agricultural Economics.

Type of Land & Year	Crop Reporting District								
	North-west	North	North-east	Central	East	South-west	South	South-east	STATE
----- Dollars Per Acre -----									
Dryland Cropland (No Irrigation Potential)									
Feb. 1987 Value	242	190	520	246	626	288	377	416	371
Percent Change:									
from Feb. 1986	-6.60	-4.00	4.20	-6.50	-6.40	-6.50	-8.50	-1.60	-3.40
from peak year	-42.20	-45.10	-48.50	-56.20	-55.60	-47.30	-50.00	-60.80	-52.30
Dryland Cropland (Irrigation Potential)									
Feb. 1987 Value	285	250	567	325	707	328	503	508	484
Percent Change:									
from Feb. 1986	-8.60	-16.70	-5.20	-11.40	-5.20	-13.00	-12.20	-6.80	-7.60
from peak year	-58.10	-55.80	-49.90	-63.10	-60.40	-55.30	-64.90	-63.80	-59.40
Grazing Land (Tillable)									
Feb. 1987 Value	77	99	267	135	336	115	187	236	124
Percent Change:									
from Feb. 1986	-23.80	-26.70	-2.90	-18.70	-8.20	-21.20	-25.20	-2.10	-19.50
from peak year	-69.30	-62.10	-57.10	-69.00	-61.90	-65.40	-73.70	-63.90	-65.30
Grazing Land (Nontillable)									
Feb. 1987 Value	60	71	166	106	238	68	120	173	83
Percent Change:									
from Feb. 1986	-15.50	-16.50	-7.30	-19.10	-9.20	-19.00	-24.00	-2.80	-15.30
from peak year	-64.30	-61.20	-60.30	-68.70	-61.60	-68.70	-71.30	-63.50	-63.90
Hayland									
Feb. 1987 Value	160	119	188	195	271	148	175	201	144
Percent Change:									
from Feb. 1986	-15.80	-22.70	-19.30	-15.20	-19.10	-18.70	-7.90	-8.20	-19.60
from peak year	-51.20	-64.80	-66.30	-59.50	-63.30	-59.80	-60.70	-63.90	-61.60
Gravity Irrigated Cropland									
Feb. 1987 Value	650	567	775	802	959	718	863	843	826
Percent Change:									
from Feb. 1986	-13.80	-7.40	-13.90	-14.70	-1.60	-17.20	-10.40	-11.90	-10.20
from peak year	-58.90	-46.20	-56.50	-61.60	-60.10	-55.10	-61.70	-58.40	-59.30
Center Pivot Irrigated Cropland									
Feb. 1987 Value	417	396	703	541	888	487	665	723	580
Percent Change:									
from Feb. 1986	-15.90	-1.00	0.40	-13.80	-8.40	-12.70	-15.60	-8.20	-8.50
from peak year	-57.80	-55.30	-51.70	-58.80	-57.90	-56.60	-61.60	-61.90	-56.70
All Land Average									
Feb. 1987 Value	165	115	502	324	709	232	474	482	306
Percent Change:									
from Feb. 1986	-13.10	-15.40	-3.80	-14.50	-4.80	-15.00	-12.70	-6.90	-9.70
from peak year	-58.40	-57.60	-53.40	-62.50	-59.40	-56.80	-62.70	-61.70	-59.10

Table 1.
Average Reported Value of Nebraska Farmland For Different Types of Land by Crop Reporting District
February 1, 1986 and February 1, 1987

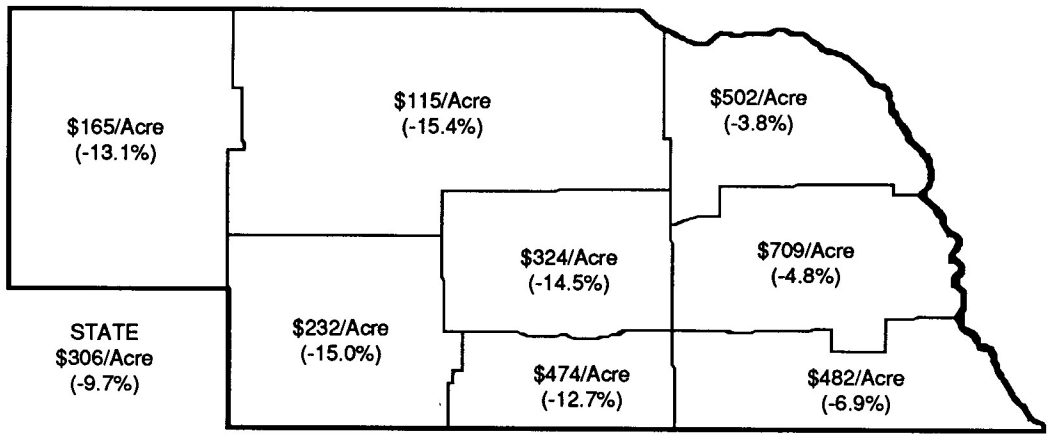


Figure 1.
Average Value of Nebraska Farmland, February 1, 1987 and Percent Change From One Year Ago

severe, particularly if acquisition involved debt financing. For many in this position, the financial stress has been and continues to be acute. For some, it has led to termination of their farming operations.

For others, who perhaps by good fortune as much as by good planning did not acquire farmland prior to its recent value decline, today's values may be perceived quite differently. For them, it may be considered an opportunistic time to acquire land for a fraction of the bid prices of just a few years ago. Reporters from around the state indicate interest on the buyer side of the market is picking up and, in turn, undoubtedly is contributing to stabilization of values in recent months.

There are other factors that also appear to be stabilizing farmland values. Farm income levels have improved over the past two years as favorable weather patterns have prevailed throughout most of the state. At the same time, some modest declines in production input costs occurred, while government farm programs have buoyed crop revenues. Livestock producers also have welcomed back profits to their operations in recent months. The culmination of these income factors definitely has slowed the downward spiral in agricultural land values and rekindled buyer interest.

Changes in the financial markets also have been influential in the market for farmland. Lower mortgage interest rates recently have bolstered real estate market activity to some degree. This may not be the critical factor that it was in the early 1980s, however, when nearly nine out of every ten farmland transactions involved debt financing. Today, a significant portion of farmland acquisitions (more than one third and perhaps nearly one half) are cash sales involving no indebtedness. Moreover, those purchases that do carry some debt usually involve sizable down payment amounts. In short, the market has shifted dramatically from debt capital to equity capital (See Figure 3). Buyers in the marketplace today are generally not heavily credit dependent, but rather are able to assemble sizable equity amounts either from cash reserves or from conversion of other capital.

Perhaps a greater influence of financial markets on farmland has been alternative investment

opportunity. Lower rates of return to bonds and other financial securities have prompted investors to consider alternative investments—including farmland. The rate of economic return to certain types of farmland now appears favorable to some of these options, unlike the situation of a few years ago when a government bond could yield the investor 15 percent annually while farmland would yield 3 percent. Given today's land value levels, the annual rate of return to cropland in some parts of the state will exceed 8 percent of asset value and be competitive with other investment opportunities.

WHAT MAY LIE AHEAD?

Although some recent signs of greater market strength exist, questions still remain. Have we witnessed the market trough? Are stable values likely for the foreseeable future? Could we see market values rebound? Questions such as these are difficult to address because the market itself is complex. Future trends in farmland values will be influenced by a host of factors that can be classified in institutional, biological, and economic sets. We

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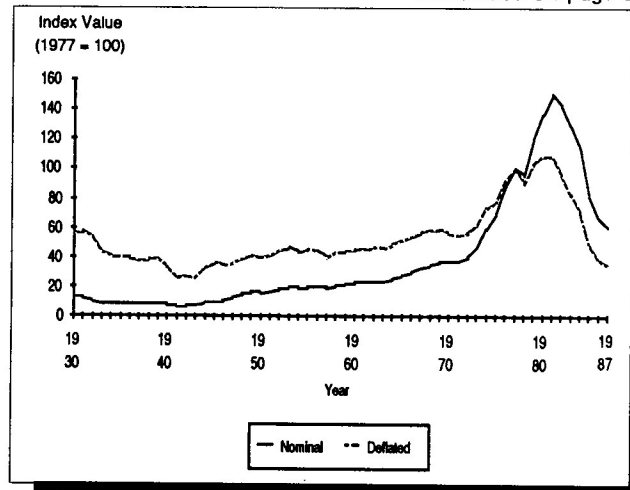


Figure 2.
Index of Farmland Values, 1930—87
Nebraska, Nominal & Deflated

ECONOMIC DEVELOPMENT MYTHS

Lower taxes frequently are touted as a means to promote economic growth. It has been suggested that Nebraska's growth rate would be stimulated if tax rates for individuals and corporations were lowered. Nationally, an experiment in the 1960s indicated that tax cuts could increase U.S. output. It, however, is not clear that cuts at the state level will stimulate growth.

Florida, Tennessee, and Texas have fared well without state individual income taxes and with limited or no corporate income taxes. At the other extreme, however, are states such as Connecticut and Minnesota with high rates of taxation that have enjoyed spectacular growth of employment and income.

Minnesota led all states in the north central region of the U.S. from 1982 to 1986 in employment and income growth, and it has one of the highest tax structures. A person earning \$50,000 in Minnesota would pay an estimated \$3,589 in Minnesota state income taxes, compared to \$2,315 in Iowa or \$1,300 in Nebraska (Table 4). Connecticut also has experienced rapid growth, as have Florida and Tennessee (Table 4). Texas gained substantially until oil prices collapsed in late 1985.

Lowering taxes in Nebraska may stimulate economic growth, but it may not. Other factors, such as the rate of growth of the national economy, fluctuations in the value of the dollar, variations in interest rates, or changes in commodity prices, may override any adjustments in Nebraska's tax rates.

As Nebraska shapes an economic development strategy, it is important to remember there is no single magical solution to Nebraska's development and growth problems. There is no substitute for old-fashioned work in promoting and diversifying the state by developing and encouraging its small businesses, creating educational opportunities for Nebraska citizens, and maintaining and expanding the state's infrastructure (including roads, water, safety, and health delivery systems). Much of this work is dull and unspectacular. Taxes may need to be raised for education or infrastructure. It is unlikely that economic development will occur, however, without a commitment to a first-rate education system and a well-maintained state infrastructure.

Donald E. Pursell

Table 4
1984 Individual State Income Tax Liabilities For Selected Gross Incomes

GROSS INCOME	Married-One Wage Earner Taxable Income			Number Employed November, 1981 (thousands)	Number Employed November, 1986 (thousands)	Percent Change 1981-1986
	25,000	50,000	100,000			
STATE:						
CONNECTICUT	0	0	0	1,505	1,723	14.40
FLORIDA	0	0	0	3,850	5,375	39.60
IOWA	900	2,315	5,248	1,337	1,360	1.70
KANSAS	407	1,359	4,317	1,161	1,173	1.00
MINNESOTA	1,399	3,589	7,610	2,047	2,140	4.50
MISSOURI	540	1,390	2,898	2,128	2,391	12.40
NEBRASKA	405	1,300	4,031	756	773	2.20
NORTH DAKOTA	224	719	2,228	290	298	2.80
SOUTH DAKOTA	0	0	0	321	329	2.50
TENNESSEE	0	0	0	1,883	2,156	14.40
TEXAS	0	0	0	6,394	7,489	17.10

Source: Comparison of the 1984 Individual Income Tax Burdens by State.

Minnesota Taxpayers Association, 1984.

Notes: Connecticut and Tennessee taxed capital gains, dividends, and interest only.

Florida, South Dakota, and Texas had no income tax.

Employment numbers were taken from Employment and Earnings, a U.S. Department of Labor,

Bureau of Labor Statistics publication. Data are from the January 1987 edition, Table D-1,

pp 150-154 and from the February 1982 edition, Table E1, pp. 124-128.

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REVIEW AND OUTLOOK

The national economy is building momentum. Preliminary estimates of first quarter 1987 gross national product show real growth of 4.3 percent, the best performance in several quarters. Employment is 2.5 million above year ago levels, with gains concentrated in the service sector. Service sector jobs range from minimum wage jobs in retailing to well paid positions in computer servicing, repair, data processing, advertising, financial services, and health care. According to the Bureau of Labor Statistics, there have been more well paying service jobs created during the past two years than low paying service jobs.

Nebraska's economy is slightly above year ago levels and is expected to improve 1.5 to 2.0 percent during the coming twelve months. Nationally, real growth of around 3.0 to 4.0 percent is expected. Employment in Nebraska is 8,000 above year ago levels and will continue to show modest increases during the next year. Omaha employment was 292,000, compared with 289,000 a year ago.

Lincoln employment was 108,000, up from 107,000 last year.

Low grain prices make it difficult for grain producers to make adequate returns, but livestock producers, particularly hog producers, are doing better. The agriculture economy will provide little boost to the state economy in the coming year.

Fourth quarter Nebraska personal income stood at \$21.7 billion, up \$400 million from the fourth quarter of 1985. Fourth quarter results were not impressive, which can be explained in part by a surge in personal income during the fourth quarter of 1985.

For all of 1986, Nebraska personal income was up 3.1 percent. When adjusted for price changes of 1.6 percent, real personal income rose nearly 1.5 percent. Components showing respectable gains include earnings from services, dividends, interest, rent, Social Security payments, and proprietors income. These trends will continue in 1987.

Donald E. Pursell

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
January 1986	Current Month as		1987 to Date	
	Percent of Same		as Percent of	
	Month Previous Year		1986 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	100.30	103.00	100.30	103.00
Agricultural	89.10	90.20	89.10	90.20
Nonagricultural	102.40	103.30	102.40	103.30
Construction	95.30	101.40	95.30	101.40
Manufacturing	93.20	97.60	93.20	97.60
Distributive	104.60	104.60	104.60	104.60
Government	103.60	106.60	103.60	106.60
Physical Volume	99.50	101.60	99.50	101.60
Agricultural	96.60	92.60	96.60	92.60
Nonagricultural	100.20	101.90	100.20	101.90
Construction	93.80	99.70	93.80	99.70
Manufacturing	95.10	99.40	95.10	99.40
Distributive	103.10	103.10	103.10	103.10
Government	98.60	101.60	98.60	101.60
2. CHANGE FROM 1967				
Indicator	Percentage of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	377.40	479.50		
Agricultural	388.80	292.80		
Nonagricultural	375.40	485.50		
Construction	233.80	504.00		
Manufacturing	343.10	311.60		
Distributive	394.60	576.40		
Government	412.80	503.40		
Physical Volume	131.10	154.10		
Agricultural	180.90	131.30		
Nonagricultural	123.40	154.90		
Construction	63.70	137.30		
Manufacturing	140.00	124.20		
Distributive	118.50	173.00		
Government	152.40	157.30		

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES			
Region Number and City	City Sales**		Sales in Region**
	January 1987 as percent of January 1986	January 1987 as percent of January 1986	1987 to Date as percent of 1986 to Date
<i>The State</i>	102.20	98.90	98.90
1 Omaha	97.60	95.20	95.20
Bellevue	108.80		
Blair	101.10		
2 Lincoln	105.20	99.80	99.80
3 South Sioux City	89.20	94.40	94.40
4 Nebraska City	97.40	105.40	105.40
6 Fremont	92.60	93.60	93.60
West Point	85.60		
7 Falls City	106.70	104.50	104.50
8 Seward	105.70	97.00	97.00
9 York	107.60	101.90	101.90
10 Columbus	105.20	101.40	101.40
11 Norfolk	109.00	102.80	102.80
Wayne	101.60		
12 Grand Island	100.30	97.30	97.30
13 Hastings	101.40	99.70	99.70
14 Beatrice	96.60	101.50	101.50
Fairbury	112.70		
15 Kearney	114.90	110.30	110.30
16 Lexington	94.50	104.10	104.10
17 Holdrege	92.90	96.80	96.80
18 North Platte	98.60	93.50	93.50
19 Ogallala	159.50	121.00	121.00
20 McCook	103.90	97.90	97.90
21 Sidney	93.00	83.40	83.40
Kimball	72.30		
22 Scottsbluff/Gering	116.30	111.70	111.70
23 Alliance	89.60	98.10	98.10
Chadron	117.10		
24 O'Neill	109.60	100.70	100.70
25 Hartington	105.80	111.80	111.80
26 Broken Bow	92.80	97.90	97.90

** Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.

Compiled from data provided by Nebraska Department of Revenue

NOTE: Employment data from the Department of Labor were not available this month.

Continued on page 3
briefly will discuss each.

Several institutional elements carry implications for the farmland market. Agricultural credit institutions, as they determine the cost and availability of credit, will impact buyer participation to varying degrees. Until rates of return to farmland exceed the interest rates on debt, the caution associated with debt financing likely will continue. Likewise, the recently enacted federal tax reform system removes some of the traditional tax incentives associated with real estate investment. Also, institutional measures that restrict ownership can create a dampening effect on the buyer side of the agricultural land market; here in Nebraska, statutes prohibiting foreign (alien) ownership of farmland as well as the constitutional restriction on nonfamily corporations and limited partnerships now preclude certain buyer entities that otherwise may be present.

Undoubtedly the most prominent institutional factor impacting farmland value trends is the future of federal farm programs. Nebraska's farming sector is particularly dependent upon these programs, with government price support payments often representing the difference between profit and loss. Any significant reduction in these government transfers further would reduce cropland values. To some extent, the possibility of such reductions already is being factored into today's market in the form of bid levels being discounted for uncertainty.

Biological factors impact the agricultural land market because demand for such land is derived demand based upon what the land produces. For example, one must be cognizant of the recent advances in world food production, with numerous countries expanding food output and becoming self sufficient. In essence, this represents other land areas of the world substituting for U.S. farmland, thereby dampening its potential earnings and value. Likewise, a similar outcome arises from the advent of biotechnology and genetic engineering, which may expand agricultural productivity greatly. In this instance, another input (technology) is substituted for farmland. Conversely, the future may include major environmental problems associated with nonland inputs (such as commercial fertilizers and chemicals) leading to a greater dependence on farmland.

Finally, many economic factors will affect the future direction of farmland values. The nature of the

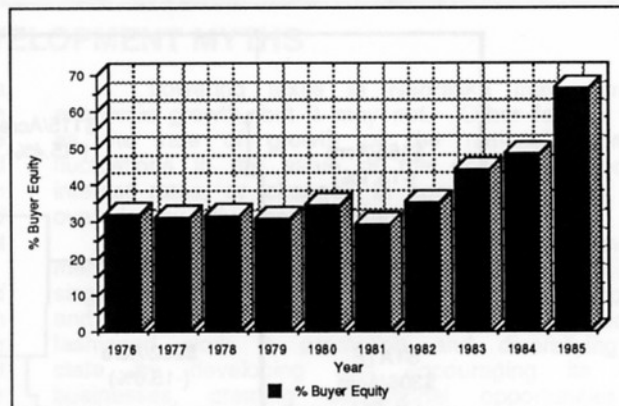


Figure 3
Buyer Equity in Land Transactions
Nebraska Farmland Sales
1976-85

U.S. economy itself will be important. For example, should this country experience accelerated rates of inflation, investor interest in farmland also may increase, reflecting the belief that it represents a good store-of-value and hedge against inflation during such economic times.

Dramatic changes in the structure of the agricultural economy, which are already underway, also carry important connotations for the farmland market. Innovative farm management strategies for the 1990s may dictate greater emphasis on leased capital and less on debt capital. In turn, the presence of the farmer buyer gradually may decline.

Another economic variable is the fickle consumer and his or her changing tastes and preferences regarding food and nutrition. As diet patterns change, significant production shifts both within and among regions of the country are likely in the future, with farmland values adjusting accordingly.

In summary, the number of possible scenarios regarding future farmland value trends is limitless. Although some price stability is appearing on the short-term horizon, major unsettling forces still prevail on all three fronts—the institutional, the biological, and the economic. We remain in a period of rapid change and uncertainty. Only time will tell the outcome.

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